

The Department of Employee Trust Funds Comprehensive Annual Financial Report: A Primer

Presented to the Joint Informational Session of the
WR, TR and ETF Boards,

December 2, 2010

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FOR YEAR ENDED DECEMBER 31, 2009

2009

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

State of Wisconsin
Department of
Employee Trust Funds

“Every governmental unit should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR) that encompasses all funds and account groups...”

National Council on Governmental Accounting Statement 1
Governmental Accounting and Financial Reporting Principles

Components of the CAFR

- Transmittal Letter
- Awards
 - Public Pension Coordinating Council
- Introductory Section
 - Program Highlights
 - Condensed financial statements
 - Statistical data
 - ETF Boards and Department Organization
 - Legislation and Annual Accomplishments

Components of the CAFR

- Finances
 - Auditor's opinion letter
 - Financial statements
 - Notes to financial statements
 - Required supplementary information
- Statistics
 - Multi-year comparative statistics
 - For all programs administered by ETF

Components of the CAFR

- Actuarial
 - Actuary's certification letter
 - Excerpts from the actuarial valuation reports
- Investments
 - High level only
 - References SWIB's annual report
- Employers
 - Payroll, contributions and unfunded liability



FINANCES

State of Wisconsin
Department of
Employee Trust Funds

Financial Reporting

- **Fiduciary Funds** - used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs
 - Wisconsin Retirement System
 - Duty Disability
 - Accumulated Sick Leave Conversion Credits
 - State Retiree Life Insurance
 - Local Retiree Life Insurance
 - Employee Reimbursement Account
 - Commuter Benefits
 - Milwaukee Retirement System (included only investments from the Milwaukee Public Schools Supplemental Retirement Program)
 - Badger Rx

Financial Reporting

- **Proprietary Funds** - used to report a government's ongoing organizations and activities that are similar to those often found in the private sector
 - Long-Term Disability Insurance
 - Health Insurance
 - Income Continuation Insurance
 - Life Insurance

Financial Statements

- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets
- Statement of Net Assets – Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
- Statement of Cash Flows – Proprietary Funds
- Statement of Fiduciary Net Assets – Agency Funds
- Statement of Changes in Fiduciary Net Assets – Agency Funds
- Notes to Financial Statements
- Required Supplementary Information

Wisconsin Department of Employee Trust Funds
Statement of Fiduciary Net Assets
December 31, 2009
(In Thousands)

	Wisconsin Retirement System	Duty Disability	Accumulated Sick Leave Conversion
Assets:			
Equity in Pooled Cash & Cash Equivalents	\$ 3,613,327	\$ 0	\$ 0
Securities Lending Collateral	4,196,276	0	0
Prepaid Expenses	13,103	0	9,172
Receivables:			
Contributions Receivable	135,437	5,509	3,400
Prior Service Contributions Receivable	244,339	0	0
Benefit Overpayments Receivable	2,956	495	0
Due From Other Trust Funds	4,788	0	0
Rebates Receivable	0	0	0
Miscellaneous Receivables	25,622	0	0
Interest and Dividends Receivable	183,788	0	0
Investment Sales Receivable	94,461	0	0
Total Receivables	<u>691,389</u>	<u>6,004</u>	<u>3,400</u>
Investments at Fair Value:			
Fixed Income Investments	19,360,078	0	0
Preferred Securities	155,685	0	0
Convertible Securities	45,660	0	0
Stocks	41,904,238	0	0
Options	105	0	0
Limited Partnerships	5,944,710	0	0
Mortgages	44,701	0	0
Real Estate	376,718	0	0
Multi Asset Investments	1,252,558	0	0
Investment in Core Fund	0	333,496	1,889,818
Investment in Variable Fund	0	0	0
Investment in External Pool	0	0	0
Total Investments	<u>69,084,433</u>	<u>333,496</u>	<u>1,889,818</u>
Capital Assets	<u>63</u>	<u>0</u>	<u>0</u>
Total Assets	<u>77,598,591</u>	<u>339,500</u>	<u>1,902,390</u>
Liabilities:			
Core Investment Due Other Programs	2,874,052	0	0
Variable Investment Due Other Programs	21,106	0	0
Securities Lending Collateral Liability	4,196,276	0	0
Benefits Payable	257,803	2,458	0
Other Estimated Future Benefits	0	0	2,195,709
Unearned Revenue	188	0	0
Due To Other Trust Funds	111	56	17
Due to General Fund	0	0	0
Miscellaneous Payables	134,467	0	0
Investment Payables	118,294	0	0
Total Liabilities	<u>7,602,295</u>	<u>2,514</u>	<u>2,195,726</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants	<u>\$ 69,996,296</u>	<u>\$ 336,986</u>	<u>\$ (293,336)</u>

The accompanying notes are an integral part of the financial statements.
A schedule of funding progress for the Wisconsin Retirement System is presented on page 83.

Statement of Fiduciary Net Assets

- Assets are primarily cash, investments and receivables
- Capital Assets (building & equipment) are insignificant compared to investments
 - Will increase beginning in 2010, when internally-developed software will be capitalized
- All Core Fund investments are shown in WRS; other programs have “Investment in Core Fund”
 - Almost \$2.9 billion of investments in Core Fund actually belong to other benefit plans

Statement of Fiduciary Net Assets

- Liabilities include benefits payable, but not long-term obligations
- Net Assets Held in Trust is the amount available for future benefit payments
- This Statement tells us what is available for future benefits, but not whether it is the amount we need

Wisconsin Department of Employee Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2009
(In Thousands)

	Wisconsin Retirement System	Duty Disability	Accumulated Sick Leave Conversion
Additions:			
Contributions:			
Employer Contributions	\$ 632,706	\$ 51,556	\$ 31,816
Employee Contributions	736,689	0	0
Total Contributions	<u>1,369,395</u>	<u>51,556</u>	<u>31,816</u>
Deposits	0	0	0
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	12,547,119	0	0
Interest	498,792	0	0
Dividends	627,426	0	0
Securities Lending Income	33,663	0	0
Other	72,274	59,986	347,992
Less:			
Investment Income Distributed to Other Funds	522,032	0	0
Investment Expense	230,129	0	0
Securities Lending Rebates and Fees	2,127	0	0
Net Investment Income	<u>13,024,966</u>	<u>59,986</u>	<u>347,992</u>
Interest on Prior Service Receivable	13,986	0	0
Service Reimbursement Income	0	0	0
Miscellaneous Income	1,117	0	0
Total Additions	<u>14,409,484</u>	<u>111,542</u>	<u>379,808</u>
Deductions:			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary	3,797,615	29,441	0
Separation Benefits	24,755	0	0
Other Benefit Expense	0	0	120,159
Distributions	0	0	0
Carrier Administrative Expenses	0	0	0
Departmental Administrative Expenses	20,940	441	279
Total Deductions	<u>3,843,310</u>	<u>29,882</u>	<u>120,438</u>
Net Increase (Decrease)	<u>10,566,174</u>	<u>81,660</u>	<u>259,370</u>
Net Assets Beginning of Year	<u>59,430,122</u>	<u>255,326</u>	<u>(552,706)</u>
End of Year	<u>\$ 69,996,296</u>	<u>\$ 336,986</u>	<u>\$ (293,336)</u>

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Fiduciary Net Assets

- Additions are primarily contributions and investment income
- All investment income is shown in the WRS; other programs' share is shown as "Investment Income Distributed to Other Funds"
- SWIB investment expenses are shown as an offset to investment income

Statement of Changes in Fiduciary Net Assets

- Employee Contributions are the amount the employee is responsible for; most are paid by the employer
- Deductions are primarily annuities, withdrawals and administrative expenses
- ETF expenses are shown as a Deduction

Wisconsin Department of Employee Trust Funds
Statement of Net Assets -- Proprietary Funds
December 31, 2009
(In Thousands)

Statement 3

	Long-Term Disability Insurance	Health Insurance	Income Continuation Insurance	Life Insurance
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 0	\$ 8,124	\$ 0	\$ 0
Investment In Core Fund	241,531	205,074	81,597	0
Prepaid Expenses	0	73	0	2,331
Rebates Receivable	0	8,176	0	0
Contributions Receivable	0	0	1,092	0
Due From Other Trust Funds	0	976	61	7
Benefit Overpayment Receivable	73	0	3,510	0
Miscellaneous Receivables	0	0	0	324
Total Current Assets	241,604	222,423	86,260	2,662
Total Assets	241,604	222,423	86,260	2,662
LIABILITIES				
Current Liabilities:				
Premiums Payable	0	0	0	2,341
Unearned Revenue	0	103,198	158	0
Current Portion of Estimated Future Benefits	22,321	8,112	15,303	0
Due To Other Trust Funds	3,381	1,044	0	98
Miscellaneous Payables	71	776	22	0
Total Current Liabilities	25,773	113,130	15,483	2,439
Noncurrent Liabilities:				
Noncurrent Portion of Estimated Future Benefits	133,957	0	57,474	0
Total Noncurrent Liabilities	133,957	0	57,474	0
Total Liabilities	159,730	113,130	72,957	2,439
NET ASSETS RESTRICTED FOR BENEFITS	\$ 81,874	\$ 109,293	\$ 13,303	\$ 223

The accompanying notes are an integral part of the financial statements.

Statement of Net Assets – Proprietary Funds

- Assets are primarily Cash, Investments in Core Fund and receivables
- Liabilities include both benefits payable and long-term obligations
- Net Assets Restricted for Benefits is the surplus / shortfall after all future obligations are paid

Wisconsin Department of Employee Trust Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets -- Proprietary Funds
For the Year Ended December 31, 2009
(In Thousands)

Statement 4

	Long-Term Disability Insurance	Health Insurance	Income Continuation Insurance	Life Insurance
Operating Revenues:				
Contributions	\$ 0	\$ 1,124,381	\$ 14,867	\$ 0
Miscellaneous Income	1	5	81	6
Administrative Reimbursement Income	0	0	0	343
Total Operating Revenues	1	1,124,386	14,948	349
Operating Expenses:				
Benefit Expense	41,301	1,109,989	11,586	0
Carrier Administrative Expenses	1,764	7,229	1,348	0
Departmental Administrative Expenses	388	4,137	472	442
Total Operating Expenses	43,453	1,121,355	13,406	442
Operating Income (Loss)	(43,452)	3,031	1,542	(93)
Nonoperating Revenues:				
Investment Income	49,250	24,209	13,930	6
Total Nonoperating Revenues	49,250	24,209	13,930	6
Net Income (Loss)	5,798	27,240	15,472	(87)
Change in Net Assets	5,798	27,240	15,472	(87)
Total Net Assets - Beginning of Year	76,076	82,053	(2,169)	310
Total Net Assets - End of Year	\$ 81,874	\$ 109,293	\$ 13,303	\$ 223

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets

- Benefit expense is the present value of new benefits earned during the year; not the cash payments during the year
- Investment income is treated as “non-operating income” because investing is not the purpose of the fund

Notes to Financial Statements

“The notes to the financial statements should communicate information essential for fair presentation of the basic financial statements that is not displayed on the face of the financial statements. As such, the notes form an integral part of the basic financial statements.”

Notes to Financial Statements

- Summary of Significant Accounting Policies
- Accounting Changes
- Deposits, Investments and Securities Lending Transactions
- Description of the Wisconsin Retirement System
- Contributions Required and Made

Notes to Financial Statements

- Funded Status and Funding Progress – WRS
- Reserves
- Public Entity Risk Pools
- Other Postemployment Benefit (OPEB) Plans
- Milwaukee Retirement System

Notes to Financial Statements

FUNDING VALUE OF ASSETS

While investments are valued at fair value for financial statement presentation, a funding value of assets is used in evaluating the funded status of the benefit plans and in determining future contribution requirements. Funding value does not include deferred market gains and losses that have not yet been distributed from the Market Recognition Account (MRA) to the program reserves. See Note 7 for further explanation of the MRA. As of December 31, 2009, the funding value of reserves (\$ in millions) was as follows:

Benefit Plan	Reserves at Actuarial Value	Deferred Market Gains (Losses)	Reserves at Fair Value
Wisconsin Retirement System	\$79,037.1	\$(9,040.8)	\$69,996.3
Income Continuation Insurance ⁽¹⁾	14.6	(1.3)	13.3
Duty Disability Insurance	392.4	(55.4)	337.0
Long-Term Disability Insurance ⁽¹⁾	144.1	(62.2)	81.9
Accumulated Sick Leave Conversion Credits ⁽¹⁾	(16.3)	(277.0)	(293.3)
Health Insurance ⁽¹⁾	143.6	(34.3)	109.3
State Retiree Health Insurance ⁽¹⁾	(0.6)	0.0	(0.6)
Local Retiree Health Insurance ⁽¹⁾	(2.7)	(0.1)	(2.8)

Notes to Financial Statements

Contributions required and made during 2009 were:

	Contributions Required		Contributions Made	
	Contributions (\$ in millions)	Percentage of Payroll	Contributions (\$ in millions)	Percentage of Payroll
Employer Current Service	\$626.0	4.96%	\$626.0	4.96%
Employer Prior Service*	19.6	.15	73.3	.58
Employee Required	627.1	4.97	627.1	4.97
Benefit Adjustment Contribution	101.0	0.80	101.0	0.80

Notes to Financial Statements

The funded status of the plan as of December 31, 2009, is as follows (\$ in millions):

(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Frozen Entry Age	(c) Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	(d) Funded Ratio (a) / (b)	(e) Covered Payroll	(f) UAAL as Percentage of Covered Payroll (c) / (e)
\$78,911.3	\$79,104.6	\$193.3	99.8%	\$12,622.2	1.5%

Required Supplementary Information

“Required supplementary information (RSI) is supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context”

Required Supplementary Information

Wisconsin Retirement System Schedule of Funding Progress (Millions \$)

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded ⁽¹⁾ AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2000	51,824.6	53,993.6	2,169.0	96.0%	9,322.5	23.3%
December 31, 2001	58,024.3	60,134.7	2,110.4	96.5%	9,917.7	21.3%
December 31, 2002	57,861.9	59,618.8	1,756.9	97.1%	10,126.6	17.3%
December 31, 2003	62,685.3	63,211.7	526.4	99.2%	10,502.4	5.0%
December 31, 2004	66,209.4	66,622.3	412.9	99.4%	10,897.6	3.8%
December 31, 2005	68,615.1	68,978.6	363.5	99.5%	10,973.4	3.3%
December 31, 2006	73,415.3	73,735.8	320.5	99.6%	11,308.2	2.8%
December 31, 2007	79,791.9	80,079.7	287.8	99.6%	11,720.2	2.5%
December 31, 2008	77,159.4	77,412.0	252.6	99.7%	12,289.6	2.1%
December 31, 2009	78,911.3	79,104.6	193.3	99.8%	12,622.2	1.5%

Required Supplementary Information

Other Post Employment Benefits Schedule of Funding Progress (\$ thousands)

Duty Disability

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2006	222,692	427,089	204,397	52.1%	1,144,529	17.9%
January 1, 2008	311,778	471,668	159,890	66.1%	1,257,666	12.7%

State Retiree Life Insurance

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2006	314,116	337,341	23,225	93.1%	2,506,437	0.9%
January 1, 2008	329,822	382,392	52,570	86.3%	2,699,508	1.9%

Local Retiree Life Insurance

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2006	195,632	206,097	10,465	94.9%	3,310,064	0.3%
January 1, 2008	211,950	233,444	21,494	90.8%	3,556,913	0.6%

Required Supplementary Information

Income Continuation Insurance Claims Development Information		(\$ Millions)									
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	Net earned required contribution and investment revenues	8.2	7.9	3.7	25.5	20.5	17.9	24.4	20.5	(9.1)	28.8
2	Unallocated expenses	0.8	1.9	1.7	1.9	2.1	2.1	2.4	2.4	2.4	1.8
3	Estimated incurred claims as of the end of the policy year	21.4	28.9	17.1	23.4	29.2	31.6	29.1	27.4	22.4	33.4
4	Paid (cumulative) as of:										
	End of Policy Year	3.2	5.5	3.5	4.5	4.5	5.1	4.4	2.5	5.1	5.5
	One Year Later	6.4	10.0	7.7	8.8	9.7	12.9	9.3	6.8	9.2	
	Two Years Later	8.0	12.1	9.0	10.5	11.9	17.0	10.4	7.8		
	Three Years Later	9.0	13.0	9.9	11.7	13.1	18.1	11.2			
	Four Years Later	9.6	13.6	10.6	12.3	13.6	18.8				
	Five Years Later	10.0	14.1	11.0	12.6	14.1					
	Six Years Later	10.4	14.3	11.4	13.0						
	Seven Years Later	10.6	14.5	11.8							
	Eight Years Later	10.8	14.7								
	Nine Years Later	11.0									
5	Reestimated incurred claims:										
	End of Policy Year	21.4	28.9	17.1	23.4	29.2	31.6	29.1	27.4	22.4	33.4
	One Year Later	18.0	20.4	15.8	17.0	20.5	25.1	16.7	22.5	15.8	
	Two Years Later	16.3	18.9	14.4	16.6	21.1	25.9	17.8	13.4		
	Three Years Later	14.3	16.7	14.3	17.1	19.7	27.0	16.8			
	Four Years Later	13.1	16.6	14.1	15.8	20.2	24.7				
	Five Years Later	12.7	16.5	13.7	16.0	18.5					
	Six Years Later	12.4	16.1	14.1	15.6						
	Seven Years Later	12.6	16.3	14.4							
	Eight Years Later	12.8	16.4								
	Nine Years Later	12.2									
6	Increase (decrease) in estimated incurred claims from end of policy year	(9.2)	(12.5)	(2.7)	(7.8)	(10.7)	(6.9)	(12.3)	(14.0)	(6.6)	0.0



STATISTICS

State of Wisconsin
Department of
Employee Trust Funds

Statistical Section

“Statistical tables differ from financial statements because they usually cover more than two fiscal years and may present non-accounting data. Statistical tables reflect social and economic data, financial trends, and the fiscal capacity of the government.”

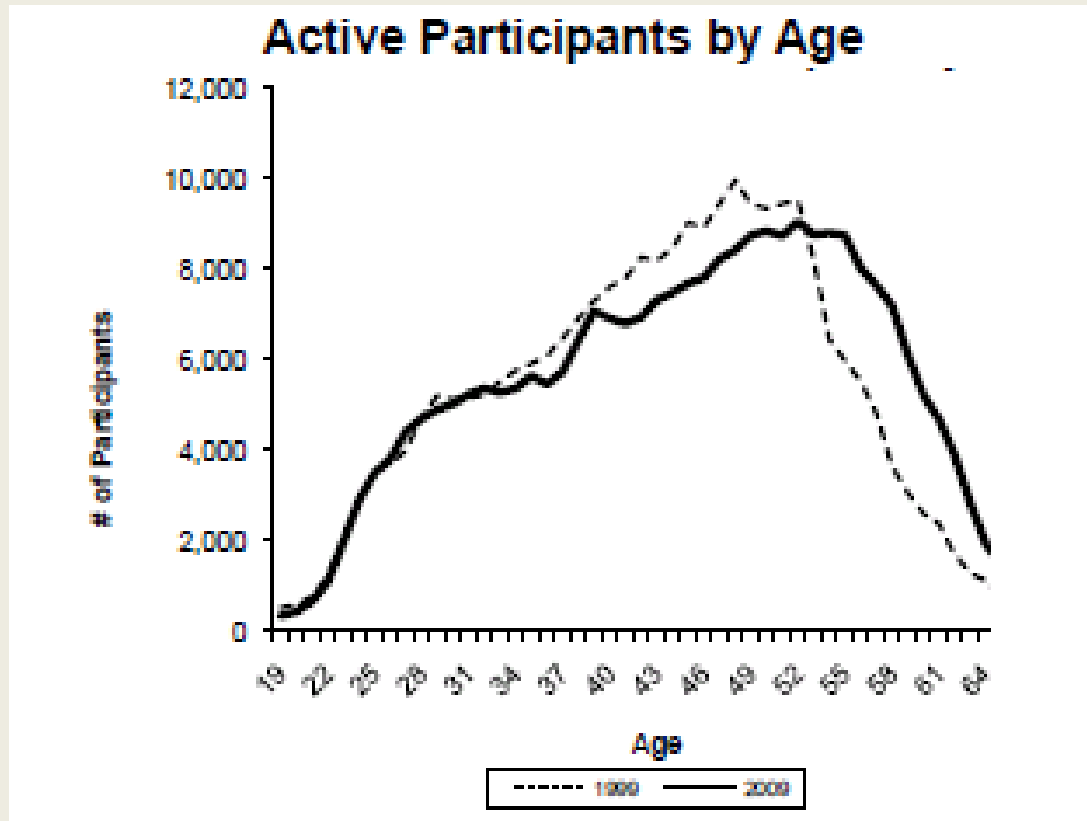
National Council on Governmental Accounting Statement 1
Governmental Accounting and Financial Reporting Principles

Statistics

Total WRS Participants

Year	Active	Inactive	Alternate Payees	Annuitants	Total Participants
2000	258,040	114,205	2,972	107,425	482,642
2001	263,883	124,194	3,322	112,142	503,541
2002	266,350	123,419	3,426	116,289	509,484
2003	265,150	121,902	3,391	121,582	512,025
2004	264,600	126,461	3,494	126,211	520,766
2005	263,122	132,145	3,599	131,674	530,540
2006	262,856	138,879	3,706	137,117	542,558
2007	263,381	141,002	3,769	142,906	551,058
2008	265,721	143,471	3,837	144,033	557,062
2009	267,293	144,424	3,929	150,671	566,317

Statistics



What's Next for the CAFR

- Earlier publication
 - 2010 CAFR in September 2011
- Summary CAFR